

**California Department of Insurance
Proposition 103 Recoupment Fee
For Fiscal Year 2005-06**

Introduction

This document describes the process by which the Proposition 103 Recoupment Fee Assessment for Fiscal Year (FY) 2005-06 was calculated. The assessment is based on FY 2004-05 actual costs and FY 2005-06 projected costs.

Background

On November 8, 1988, California voters passed Proposition 103. The California Department of Insurance (CDI) was charged with creating new programs and expanding existing operations to meet the mandates of Proposition 103. California Insurance Code (CIC) Sections 1861.01 – 1861.16 contain the provisions set forth by Proposition 103. The following are the major Proposition 103 provisions:

CIC Section	Title
1861.01	Insurance rate rollback
1861.02	Determination of rates; good driver discount plan
1861.025	Good driver discount policy; criteria for qualification
1861.03	Unfair insurance practices; prohibition
1861.04	Full disclosure of insurance information
1861.05	Approval of insurance rates
1861.055	Regulations governing hearings; adoption; rendering of decision
1861.06	Public notice
1861.07	Public inspection
1861.08	Hearings; law governing
1861.09	Judicial review
1861.10	Consumer participation
1861.11	Emergency authority
1861.12	Group insurance plans
1861.13	Application
1861.135	Surety insurance; rates, rating plans, rating systems
1861.137	Credit insurance
1861.14	Enforcement and penalties
1861.15	Good driver discounts; minimum financial responsibility coverage policies
1861.16	Minimum financial responsibility coverage amount required by Section 1861.15; payment of commission; common ownership, management, or control; interim rating plan; penalties.

On July 1, 1994, the department implemented a time activity reporting system, which requires employees to maintain monthly timesheets on work activities and funding sources. The system was installed to enable the department to accurately account for its program costs, including Proposition 103.

Effective January 1, 1995, Chapter 965/Statutes of 1994, added Insurance Code Sections 12991 and 12992 et. seq., which require the department to assess Proposition 103 fees based on actual costs and to create a new fee schedule on or before October 1, 1995.

On March 28, 1995, the National Fire Insurance Co. vs. Quackenbush (Proposition 103 lawsuit) was settled. Part of the settlement agreement requires the department to disclose annually all prior year actual costs and current year anticipated costs for administering Proposition 103 and to maintain a sub-account in the Insurance Fund to account for all Proposition 103 revenues and costs. The agreement required the establishment of new regulations. It also stated that funds may be maintained in the sub-account as a contingency reserve to meet unanticipated fluctuations in expenditures and revenues.

On September 11, 1995, the department received regulatory approval from the Office of Administrative Law to implement a revised method to compute recoupment fees payable by insurers to cover the department's costs of administering Proposition 103.

On January 9, 1996, the California State Auditor reported in its audit of the department's FY 1995-96 Proposition 103 Recoupment calculation, that the department based its fees for Proposition 103 on actual costs.

Lines of Business Subject to Proposition 103 Costs

LINE NO.	LINE OF BUSINESS
1	Fire
2.1	Allied Lines
3	Farmowners' Multiple Peril
4	Homeowners' Multiple Peril
5.1	Commercial Multiple Peril (Non-Liability)
5.2	Commercial Multiple Peril (Liability)
9	Inland Marine
10	Financial Guaranty
11	Medical Malpractice
12	Earthquake
17	Other Liability
18	Products Liability
19.2	Private Passenger Auto Liability
19.4	Commercial Auto Liability
21.1	Private Passenger Auto Physical Damage
21.2	Commercial Auto Physical Damage
22	Aircraft
23	Fidelity
24	Surety
26	Burglary and Theft
27	Boiler and Machinery
28	Credit
33	Aggregate Write-Ins for Other Lines

Methodology for Calculating Proposition 103 Costs

The department's Time Activity Reporting System (TARS) provides timesheet information to the California State Accounting and Reporting System (CALSTARS). CALSTARS was developed for state agencies by the Department of Finance, pursuant to Government Code Section 13300, to account for and monitor revenues, expenditures, receipts, disbursements, and resources.

The Proposition 103 annual recoupment fee calculation is based on actual cost information from CALSTARS, which reports costs by CDI's organization and program structure. Organization costs are reported by each bureau/unit within the department. Program costs categories are designated by the department to provide costs of department activities such as Proposition 103, examinations, fraud, and other regulatory functions.

To project current year Proposition 103 costs, the department analyzes the actual prior year expenditures and makes adjustments for known workload and appropriation changes for the current year. This process also rolls forward adjustments of any prior year under/over collection of assessments as well as any reported audit findings to determine the current year adjusted recoupment fee costs.

Fee Assessment Determination

Pursuant to amendments to the California Code of Regulations, Title 10, Chapter 5, Subchapter 4.7, Article 7, Section 2647.1, the recoupment fee assessment process ensures that each insurer pays a fair share of CDI's actual cost of administering Proposition 103 based on the insurer's regulatory burden. The sum of all insurers' annual fee assessments is equal to the department's expected Proposition 103 costs for the current year and adjustments from prior year. It also includes a contingency reserve to meet unanticipated fluctuations in expenditures and revenues.

Each insurer's annual Proposition 103 Recoupment Assessment is based on the assessment factor correlating to the written premiums for each direct line of business subject to Proposition 103 (from Exhibit C) multiplied by the base rate.

The base rate for FY 2005-06 is calculated by the Rate Specialist Unit to be \$309. This rate will cover expected FY 2005-06 Proposition 103 costs of \$26.5 million.

Billings

The department will bill each insurer quarterly during the fiscal year (July 1 to June 30).